

OFFICE OF THE SECRETARY OF DEFENSE

MEMO FOR \_\_\_\_\_

*Gene -*

*This is the matter Jim  
Ward sent you a note  
on. I have sent him a  
copy of Gen. Blake's letter.*

*Jack*

*Wurrol - I don't believe  
the bill per se is unac-  
ceptable - What do you  
say?*

On file OSD release instructions apply.

OFFICE OF THE SECRETARY OF DEFENSE

MEMO FOR Mr. Ward OCE 16 Mar 65

Jim —  
Gene said to tell you he  
did the best he could but he  
is not sure how effective he  
was. There were other pressing  
problems on the docket at the  
same time.

Jack

Adams  
F111B  
CIA

March 15, 1965

Dr. Fulbright,

Attached is a copy of the memo from  
Gus Pind to DoD and a draft of the DoD  
letter to Congressman Dawson. I have  
marked in red the main points of both.  
Also there is attached a copy of the House Bill.

I understand it is to go to Genl  
Vance for signature tonight or tomorrow.  
I think the DoD letter is good. If you  
agree, I request that you give Genl  
Vance your opinion.

James A. Ward

Gene,

I consider it most important that Paul Riley is standing firm  
in this matter and is using words to reflect a strongly held DOR+E  
opinion. Once again we seem to be facing vacillation on the part of  
BoB, and DoD management must recognize that it will probably have  
to carry its case in testimony on the Hill.

Walter Carlson



THE SECRETARY OF DEFENSE  
Washington

Honorable William L. Dawson  
Chairman, Committee on Government  
Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

Reference is made to your request for the views of the Department of Defense on H.R. 4845, 89th Congress, a bill "To provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies."

H.R. 4845 would amend Title I of the Federal Property and Administrative Services Act of 1949 to add a new section 111. This new section would authorize the Administrator of General Services to coordinate and provide for the economic and efficient purchase, lease and maintenance of automatic data processing equipment by, or at the expense of, Federal agencies. The Administrator would be authorized to provide ADPE equipment to agencies including maintenance and repair services, to transfer such equipment between agencies, to require joint utilization by two or more agencies, and to establish and operate equipment pools and data processing centers for joint use of such agencies. In his discretion, the Administrator may delegate to Federal agencies authority to operate equipment pools and centers, and to lease, purchase, or maintain automatic data processing equipment when determined by him to be (i) necessary for economy or efficiency of operations, (ii) essential to national defense or national security, or (iii) necessary and desirable to allow for the orderly implementation of a program for the utilization of such equipment.

The legislation would establish on the books of the Treasury an automatic data processing fund to be available to the Administrator for the above purposes. The fund would be credited with advances and reimbursements from available appropriations and funds of any agency utilizing equipment and services furnished it, and with refunds or recoveries resulting from operations of the fund. Advances and reimbursements would be based on rates determined by the Administrator which would approximate the costs thereof met by the fund.

The bill would further authorize the Secretary of Commerce to provide scientific and technological advisory services relating to automatic data processing and related systems and to make recommendations relating to establishment of uniform Federal automatic data processing standards.

Subsection 111(g) of the bill places certain limitations upon the authorities of the Administrator and the Secretary of Commerce with

On file OSD release instructions apply.

regard to determinations by the agencies of their individual automatic data processing requirements and the use they make of automatic data processing equipment or components. It further provides that determinations of the Administrator which do not have the concurrence of the agency or user involved will be subject to review and decision by the Bureau of the Budget unless the President otherwise directs.

The Department of Defense does not concur in H.R. 4845 as it is presently drafted. It is specifically opposed to those portions of the bill which would appear to grant full authority to the Administrator of General Services to provide, through an automatic data processing fund, all data processing equipment to Federal agencies through purchase, lease, or transfer from other Federal agencies, and to provide by contract or otherwise for the maintenance and repair of such equipment. Exceptions would be allowable only by specific delegation from the Administrator. It is concerned not only as to the adverse effect the above would have on its internal programs, but also with its applicability to Government contractors, as evidenced by the language contained in subsections 111(a), (c), and (d).

Moreover, the Department is of the opinion that the bill <sup>might</sup> ~~could~~ be interpreted in such a way that there could be a major inconsistency between the authority conferred on the Administrator of General Services in subsections 111(a) and (b) and the limitations placed upon him by subsection 111(g). The latter subsection specifically prohibits interference with agency determination of automatic data processing requirements and use of the equipment while the former subsections seem to establish the General Services Administrator as a third party in the vital selection and procurement of equipment that is to be used to meet the requirement.

As you know, the Report to the President by the Bureau of the Budget on the Management of Automatic Data Processing in the Federal Government which was transmitted by the President to the Congress on March 2, 1965 contained certain conclusions in this regard. The Report concluded that Government agencies should retain their present responsibilities for making decisions on the procurement and utilization of ADPE rather than have one agency make such decisions for them. Accordingly, it is recommended that on line 8, page 1 of the bill, the words "and provide for" be deleted; on line 4, page 2, the word "shall" be changed to "may"; in line 7, page 2, the words "and directed" be deleted; and that on line 12, page 2, the word "require" be changed to "provide for". It was stated on the floor of the House of Representatives on February 11, 1965 (page 2586, Congressional Record) at the time H.R. 4845 was introduced, that it was not intended that the

legislation cover any specialized scientific or specially designed military ADPE system components. Virtually all specially designed ADPE developed for military purposes such as weapons fire control, tactical military field operations, scientific and engineering, missile and satellite tracking, weapons development, command and control, and communications [and logistics] operations are procured as integral parts of weapons and support systems. Under systems management concepts and procedures used throughout the Department there is achieved a completely integrated effort between Defense management and industry to assure optimum interfacing of all elements of the systems, including the data processing equipment. Selection of the equipment, its production and testing must be in accordance with rigid time schedules to assure earliest operational dates for the systems. A requirement to obtain an exception from the Administrator of General Services for procurement of this equipment, if the language of the bill was so interpreted, could, from the point of view of time alone, seriously impair vital Defense programs. It should be further noted that commercial general purpose equipment is selected for these systems when it can perform satisfactorily. Selection of specific equipment, however, must always be related to the total system and its interface requirements. Such decisions should not be made by outside sources.

In addition to the above types of equipment, the Department of Defense makes extensive use of ADPE for intelligence and other highly classified purposes. Much of the equipment used is commercially available, general purpose ADPE. Information essential to the selection and acquisition of this equipment is highly classified and its dissemination restricted accordingly. Certain agencies of the Department of Defense make extensive use of ADPE in accomplishing urgent cryptologic missions. Design or selection, production, testing, and updating of ADP equipment and the urgency and sensitive classified nature of the data to which the ADP applications are made require that the most rigid security measures and time schedules be applied. A vestiture of substantial control over these ADPE systems by an outside agency is irreconcilable with the responsibility of the Secretary of Defense to conduct national cryptologic functions with the direct use of ADP systems and to safeguard the conduct of these functions. It is considered essential that ADPE determinations of the types described above involving the national defense and national security be made by the Secretary of Defense without the need for consultation with or delegation of authority from another agency.

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Accordingly, the following additional sentence is recommended for incorporation in the bill commencing on page 2, line 16.

"This section shall not be construed to apply to specially designed automatic data processing equipment for scientific, military or cryptologic uses and the head of a federal agency is authorized to determine when any automatic data processing equipment should be excluded from the provisions of this section for reasons of national defense or national security."

In addition to the matters expressed above, the Department is greatly concerned with the management and fiscal aspects of the proposed ADPE revolving fund. Under the legislation, GSA apparently would procure ADPE equipment by purchase or lease, and then rent the equipment to the agencies. This imposes another echelon into the procurement of the equipment with its resultant extra costs to the Government. These GSA costs, under the bill, will be reflected in surcharges to the agencies with the result being generally higher costs to the agencies than if they purchased or leased the equipment themselves. In addition, it will discourage second and third users of the equipment since they will be paying rentals to GSA for older and perhaps less efficient equipment that might be as high or higher than what they would pay for the most modern equipment. Under existing procedures for the utilization of equipment excess to one agency by another agency, there is a clear financial incentive to utilize such equipment. If it is government-owned, it can generally be acquired at no cost except for transportation, packing, and dismantling charges. If the equipment will do the job, the economic advantage over new equipment is obvious. Even with leased equipment, the agency can usually obtain it at a substantial discount from the new price. Since the General Services Administration can charge rentals as long as the equipment is in use (and would have to until it is amortized), the incentive to use older, perhaps outmoded, equipment is lost. GSA may then find itself eventually in the position of having a large inventory of unused equipments in warehouses or directing agencies to use this equipment even though newer, more efficient equipment is available at equal or lower cost. For the above reasons, DOD does not consider the establishment of a revolving fund for acquisition of all ADPE as desirable.

It has been stated that two main advantages would accrue to the Government from this central procurement concept. First, it would enable lease or



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purchase decisions to be made on the basis of the total Government requirement for the equipment over its useful lifespan rather than on the basis of estimated use by the acquiring organization. Second, it would enable the development of a single customer concept with resultant economies usually obtained through discounts and better terms to the large purchaser.

With regard to the first point, the Department of Defense position, based upon extensive experience with this type equipment, is that it is practically impossible for a single agency to determine potential secondary users within the agency at the time of initial acquisition and that it is completely unrealistic to assume that any agency can make such determinations for the Government as a whole. We are in full support of the objectives of purchasing computers on the basis of proven economic advantage over leasing for the known application of the equipment. Lease/purchase analysis is made when the equipment is acquired and continually thereafter if the equipment is leased to assure that changed situations have not altered the original decision. The Department now purchases in all cases where the economic advantage is proven based upon the known use of the equipment and if the funds are available. The equipment is then assured of full amortization by the initial requiring agency and, as previously mentioned, reutilization of the equipment by a secondary user is helped by an ability to transfer the equipment at no cost. This procedure allows selective purchase of equipment where economy is assured and facilitates its reutilization, but at the same time prevents a costly build-up of owned equipment which may or may not have further use to the Government.

With respect to the advantage to be obtained through central procurement on a single purchaser concept, this Department believes that these advantages are obtainable today by the General Services Administration without legislation. The purpose of Federal Supply Schedule contracts is to obtain the best possible terms, conditions, and prices for procuring a given commodity by any agency of the Government. It is recognized that the present Federal Supply Schedules are oriented toward agency procurements of a single ADPE system or equipment component and that the contracts do not provide for any minimum quantity order by the Government during the current fiscal year which would enable quotation by the manufacturer of discounts for quantity purchases. We fail to see how the provisions of this bill could improve the prices unless the GSA was willing to guarantee each manufacturer a minimum quantity order in the contract or delayed procuring equipment until such time as it had a sufficient quantity of agency orders in hand to go out for a quantity procurement. The first alternative does not appear practical and the second would be completely unacceptable to the user agency since it would increase considerably what is already a lengthy lead time.

We do believe that GSA could work towards improving the prices of the Federal Supply Schedule contracts in two ways, neither requiring legislation. First, it can ask manufacturers for prices based upon varying

quantities of equipments and components ordered at one time by an agency. For example, the Department of Defense has obtained substantial discounts in several recent procurements of like computers at multiple locations. In each case, these discounts have been reflected in the Federal Supply Service Schedules and thereby made available to any other Government agency who would have need of a comparable number of such systems. The General Services Administration could also use information presently available in the Government-wide ADPE inventory to negotiate future prices, both lease and purchase, based on predicted requirements of agencies for this equipment for a future time period. Principal emphasis by the GSA has, up to this point, been on negotiating terms and conditions as distinguished from prices. The Department of Defense would be pleased to provide assistance to the GSA on the further emphasis of price negotiation as well.

The Report to the President, referred to above, did recommend that specific legislative authority be provided for the establishment of a revolving fund to facilitate the establishment of service centers, equipment pools and time sharing arrangements. The Report noted that the current existing General Supply Fund of the General Services Administration probably could not be used to finance consultative, programming, and other personal services which might be provided by these joint use facilities. The Department of Defense would concur in the establishment of a fund to finance these joint operations.

Accordingly, it is recommended that subsection 111(e) as proposed in the bill be amended on lines 13 and 14, page 3 to delete the words "for the efficient coordination, operation, utilization of such equipment by and for" and substitute in lieu thereof the words "to establish and operate equipment pools and data processing centers by or for the use of two or more".

As indicated earlier, the Department is also concerned with the inclusion in this legislation of ADPE used by Government contractors. The views of this Department with respect to ADPE in the hands of Government contractors have been made known to the Bureau of the Budget, the General Accounting Office and to various Committees of Congress. The General Accounting Office has issued a series of reports on this matter, favoring Government ownership for ADPE in Government contractor plants. Detailed comment on his recommendations in this area were supplied to the Comptroller General on May 21, 1964, a copy of which is attached.

Department of Defense procurement policy is to place maximum responsibility on contractors for contract performance, including the responsibility for facilities acquisition to perform those contracts. This

would include ADPE. The Department's policies of contractor responsibility go hand-in-hand with increased emphasis on the use of fixed price contracts and contracts with wide-ranging incentives which are designed to insure the utmost in sound contract management by Government contractors. Acceptance of a principal which would provide ADPE to contractors as Government-furnished equipment carries with it substantial penalty because: (1) it represents increased Government control and intervention in private enterprise and management initiative; (2) it poses the extreme likelihood of the creation of a substantial inventory of idle ADPE; (3) the administration and caretaking of such an equipment inventory will be extremely costly; and (4) it overlooks the alternative that the contractor can purchase ADPE in many cases with better advantages to the Government.

In conclusion, the Department of Defense would have no objection to the enactment of H.R. 4845 if it was amended to include the suggestions set forth above. These amendments would be in accordance with the recommendations for legislation contained in the above-mentioned Report to the President. The Department believes that an expression of policy by the Congress could be of advantage in assisting the Bureau of the Budget and the General Services Administration to coordinate the utilization of ADPE throughout the Government, leaving the individual agencies free, however, to determine their own requirements for systems and equipment and to procure such equipment and related services where the needs of those agencies so require. The Department also concurs in that portion of the legislation pertaining to responsibilities to be vested in the Secretary of Commerce. The Department of Defense is engaged in extensive scientific research and development activities in the ADPE field primarily with respect to our military requirements. However, it believes that there is a definite requirement on a Government-wide basis for the type of services which the Secretary of Commerce would provide under this bill. It is understood that the authority vested in the Secretary of Commerce by subsection 111(f) is not intended to curtail or restrict DOD research and development activities in this field.

As you know, under current available authorities, the Bureau of the Budget and the General Services Administration have initiated actions which should materially improve the management and utilization of ADPE by the Federal Government. Reference is made specifically to the Government-wide re-utilization program initiated by the General Services Administration which has been fully implemented within the Department of Defense and to the establishment under guidance provided by the Bureau of the Budget of ADPE sharing exchanges by the General Services Administration. This latter program is also being fully supported by the Department of Defense.

The Department reviewed and coordinated on Bureau of the Budget Circular A-71, which was released on March 6, 1965. This Circular represents another step in the improvement of the management of ADPE within the Government and specifically identifies the responsibilities of all agencies in this regard. As you know, this Circular was designed to implement recommendations contained in the Report to the President referred to above.

We will be happy to provide any further information that your Committee may request. Further, the Department welcomes the opportunity to testify at hearings to be held on H.R. 4845.

The Bureau of the Budget advises that from the standpoint of the Administration's program, there is no objection to the submission of this report to the Committee.

Sincerely,

Attachment

MAR 12 1965

Honorable Robert S. McNamara  
The Secretary of Defense  
Washington, D.C. 20301

Attention: Mr. Frank J. Sherlock  
Director, Legislative  
Reference Service  
30940 Pentagon

My dear Mr. Secretary:

This will acknowledge the receipt of Mr. Sherlock's letter of March 12, 1965, transmitting copies of a report which the Department of Defense proposes to present to the Chairman of the House Committee on Government Operations on H.R. 4845, 89th Congress.

There is enclosed a copy of the Bureau of the Budget's report on H.R. 4845. We would appreciate it if you would reconsider your report in the light of our views.

Sincerely yours,

Phillip S. Hughes  
Assistant Director for  
Legislative Reference

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
Washington, D. C. 20503

March 11, 1965

Honorable William L. Dawson  
Chairman, Committee on Government  
Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

This will acknowledge your letter of February 19, 1965, inviting the Bureau of the Budget to comment on H. R. 4845, a bill "To provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by the Federal departments and agencies."

President Johnson transmitted to the Congress on March 2, 1965, a report on Federal policy and practices in the acquisition and utilization of electronic computers in Government. The report, prepared by the Bureau of the Budget, is based on the results of a year-long study. It proposes a broad program to achieve increased effectiveness, coupled with greater economy, in the expanding use of automatic data processing equipment. In a letter transmitting the report to the Congress, the President indicated that the policies and suggestions for improvement outlined in the report had his approval.

Under the policies approved by the President, agency heads are held responsible for taking necessary actions to assure the most efficient and economic administration and management of their ADP activities. Within that framework of responsibility, the President expects the central agencies--the Bureau of the Budget, the General Services Administration, and the Civil Service Commission--to develop policies and guidelines for the improved management and utilization of ADP and to exercise leadership in promoting interagency cooperation, coordination, sharing arrangements, and other measures to assure that the Government's ADP requirements are met effectively and at minimum cost.

To carry out the recommendations made in the Bureau's report, no significant changes would be required in existing organizational arrangements or in the assignment of responsibilities to the Bureau of the Budget, General Services Administration, Civil Service Commission, Department of Commerce or the departments and agencies. We believe, however, that there is a clear need

to strengthen the resources devoted to the management of automatic data processing within both the central agencies and the line departments. In addition, enactment of legislation specifically addressed to the management of automatic data processing in the executive branch of the Federal Government is considered desirable to reinforce and amplify the broad general authorities now vested in the Bureau of the Budget, General Services Administration, and the Department of Commerce. The report concludes that the lack of specific legislation now "creates unnecessary handicaps to the most effective management of ADP."

Accordingly, the report recommends the enactment of general legislation (1) providing an expression of congressional policy on the acquisition and use of ADP equipment, and (2) giving a specific directive to the Bureau of the Budget and the General Services Administration, within the areas of their presently assigned responsibilities, to take necessary actions to assure the most economic and effective use of ADP. The report also recommends that explicit legislative authority be provided (1) for the establishment of a revolving fund to facilitate the establishment of service centers, equipment pools and time sharing arrangements, (2) to provide authority to develop, measure, test, and make provision for the approval and implementation of Federal standards for ADP equipment and techniques and Federal standard data elements and codes, and (3) to provide specific authority and direction to the Secretary of Commerce to establish a centralized research center on computer sciences and technology and to provide advisory and consultative services to Government agencies on computer systems development and related scientific and technical problems.

It is the view of the Bureau of the Budget that enactment of H.R. 4845 would assist materially in carrying out the policies and suggestions for improving the acquisition and utilization of electronic computers which have been approved by the President. Accordingly, the Bureau of the Budget recommends that your Committee give favorable consideration to H.R. 4845.

Sincerely yours,

(signed)

Phillip S. Hughes  
Assistant Director for  
Legislative Reference